

## Summary of Current System

	Pillar 1	Pillar 2	Pillar 3
<b>Type:</b>	♦ Defined-benefit		
<b>Participation:</b>	♦ Mandatory		
<b>Management:</b>	♦ Publicly-managed		
<b>Financing:</b>	♦ PAYGO		
<b>Coverage:</b>	♦ All residents for basic pension; all employees and self-employed earning over base amount for supplementary pension		
<b>Eligibility:</b>	♦ Age 65		

## Problems Leading to Pension Reform

- High pension expenditures
- Demographic shifts

## Summary of the Current System

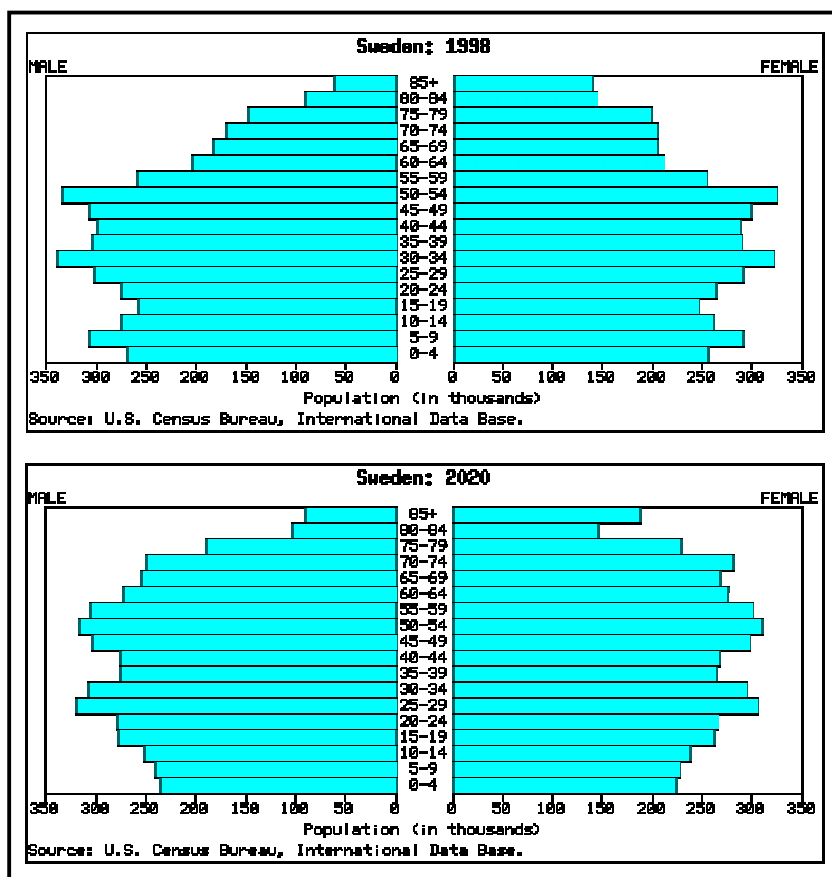
The current pension system consists of a national basic pension scheme (called *folkpension*) and a national supplementary pension (known as *ATP*). The basic pension scheme is a defined-benefit plan financed on a pay-as-you-go (PAYGO) basis. This scheme covers all Swedish residents. Financing of the basic system comes from partially from general revenues and contributions by employers.

In order to receive pension benefits, individuals must have resided in Sweden at three years or have three years of pensionable income in the national supplementary pension plan. Full pension benefits may be achieved with 40 years of residence during the ages of 16 and 64, or 30 years of pensionable income from the supplementary scheme. At retirement, single individuals receive the national basic pension, which amounts to 96 percent of base amount annually (or 78.5 percent for married individuals)

The national supplementary pension is also a defined-benefit plan financed on a PAYGO basis. This system covers all employees including the self-employed earning over a certain base amount which is defined annually. In order to receive benefits under the supplementary pension scheme, individuals must have at least three years of pensionable income in excess of the base income amount. Generally, 60 percent of the current base amount multiplied by the average of the best 15 years (of 30 years) with earned pension points (which are defined as the difference between earnings and the annual base

amount divided by the base amount). The normal retirement age for both men and women is 65 years old; however, reduced benefits are available for early retirement.

Employee contributions generally amount to 6.95 percent of wages for retirement, sickness and disability benefits. Total employer contributions are 33.03 percent of payroll for a number of benefits including retirement and child care.



SELECTED INDICATORS		
Demographic	Year	
	1998	2020
Total Population (in thousands)	8,887	9,197
Life Expectancy at Birth (Years)	79.19	81.07
Total Fertility Rate (Child Born per Woman)	1.76	1.58
Age Dependency Ratio (percent)	37.3	42.8
	1980-2000	2000-2020
Average Annual Rate of Population Growth (percent)	0.4	0.1

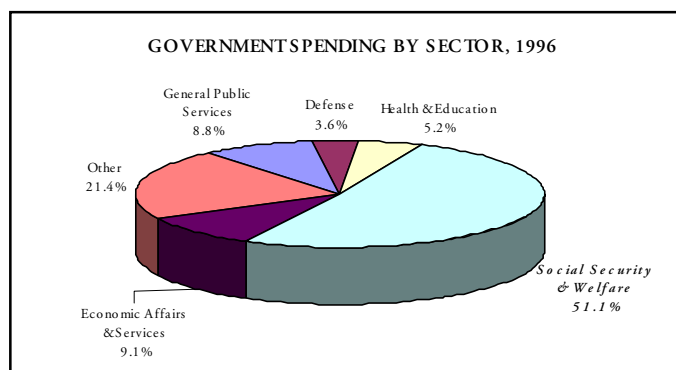
Source: U.S. Bureau of the Census. International Data Base.

Economic	1996
GNP (PPP in billions) <sup>1</sup>	166.0
GNP Average Annual Growth Rate, 1995-1996 (percent) <sup>1</sup>	1.0
GNP Per Capita (in PPP) <sup>1</sup>	18,770
Inflation Rate (percent) <sup>2</sup>	1.0
Labor Force Participation Rate (percent) <sup>3</sup>	54.2
Unemployment Rate (percent) <sup>3</sup>	8.0

Source: <sup>1</sup>World Bank; <sup>2</sup>IMF; <sup>3</sup>International Labour Office.

Pension	1997
System Dependency Ratio (percent)	n/a
Employee Contributions for Pensions (percent of earnings)	6.95
Employer Contributions for Pensions (percent of payroll)	33.03
Public Pension Spending as % of Government Spending	n/a
Public Pension Spending as % of GDP, 1996 (percent)	n/a

Source: U.S. Social Security Administration.



Source: International Monetary Fund. Government Finance Statistics Yearbook, 1997.

Working individuals are also eligible for private plans from their employers. There are two private defined-benefits pension plans, one for salaried employees (ITP plan) and one for wage earners (STP plan). Participation in these plans is mandatory for members of the Swedish Employers' Confederation. The retirement age under both plans is 65 years and the qualifying period to receive full benefits is 30 years. Employees do not contribute to either of these plans. The average employer contribution rate for the STP is 6 percent and the ITP is 7.4 percent of payroll.

## Problems Leading to Pension Reform

Both demographic and economic factors have contributed to the pension reform efforts. Sweden has one of the oldest populations in the world, with 16 percent of the population over 65 years in 1980 increasing to 21 percent by 2020. This demographic shift strains the PAYGO system where

contributions from current workers support current pensioners. Another factor is the increase in life expectancy, where individuals live an average of 79 years in 1998 compared to 81 years in 2020. The country has also experience large budget deficits in the 1990s. The public debt amounted to 85 percent of GDP in 1994. Transfer of funds to the public pension system is the largest individual item in the public debt.

## Pension Reform Efforts

In June 1998, the Parliament passed a pension reform bill that replaces the national basic and supplementary pension plans. This bill had been under discussion since 1994. Participation in the system will be mandatory. The reformed system will be financed on a PAYGO basis and also partially funded. Of the total contribution, 16 percent will be used to finance current payments and the remaining 2.5 percent to the premium reserve. Beginning in 2000, the contribution rate of 18.5 percent will be split evenly between employers and employees.

The reformed system features two types of pensions: income-related and pre-funded pensions. For income-related pensions, benefits will depend on an individual's lifetime contributions to the system. Under this notional defined-contribution plan, benefits from the PAYGO scheme will depend on an individual's total contribution and the average life expectancy at the time of retirement. Under the pre-funded scheme, contributions will be deposited into a premium reserve fund. Individuals will be able to choose a pension fund manager to invest the premium reserve account by the fall of 1999. At retirement, individuals will receive their accumulated balance.

Under the reformed system, the retirement age is flexible. Both the income-related pension and the prefunded pensions can be drawn when an individual reaches at least 61 years. The reformed pension system will be introduced gradually. Individuals born before 1938 will continue to receive benefits under the old system. Those born between 1938 and 1953 will receive benefits from both the old pension system and the reformed pension system. Finally, individuals born in 1954 or later will receive benefits entirely from the reformed system.

## Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems	✓		
Formulation of proposals	✓		
Development of draft legislation	✓		
Introduction of legislation by parliament	✓		
Review of legislation by parliament	✓		
Passage of legislation by parliament	✓		
Implementation of legislation	✓		